

Message Text

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ACTION ARA-10

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E.O. 11652: N/A

TAGS: ECON, ELAB, UY

SUBJECT: GOU DEFINES WAGE/PRICE POLICY

REF: A) MVD 1190 B) MVD 2634, 9/17/74

1. SUMMARY: FOLLOWING ON ANNOUNCEMENT OF NEW ECONOMIC MEASURES (REF A), AN APRIL 22 PRESS CONFERENCE HELD BY THE WAGE AND PRICE COMMISSION (COPRIN), AND THE NATIONAL COUNCIL OF SUBSISTENCE AND PRICE CONTROLS (SUBSISTENCIAS) DESCRIBED CURRENT GOU WAGE/PRICE POLICY AND CLARIFIED ASPECTS OF RECENT MEASURES. WHILE STOPPING SHORT OF A PRICE FREEZE, SPOKESMEN DESCRIBED POLICY AS A "PAUSE" TO BE ENFORCED WITH TOUGH NEW CONTROL MEASURES. END SUMMARY.

2. DR. OSVALDO SANCHEZ, COPRIN PRESIDENT, AND COL. NELSON DI CANDI, SUBSISTENCIAS PRESIDENT, SAID GOU POLICY WAS NOT TO IMPOSE A WAGE/PRICE FREEZE, SUCH AS HAD BEEN UNDERTAKEN IN 1968, BUT RATHER TO BRING ABOUT A PAUSE IN THE INFLATIONARY PROCESS THROUGH INDIVIDUALIST MEASURES.

MEASURES. "THE CONSIDERATION THAT THE COUNTRY MUST PUT A LIMIT IN THE SHORT TERM TO THE INJURIOUS RATE OF INFLATION.....WILL BE A DECISIVE ELEMENT IN FUTURE PRICE MODIFICATIONS." "COPRIN AND SUBSISTENCIAS, EACH WITHIN LIMITED OFFICIAL USE

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THEIR LEGAL COMPETENCE AND IN A COORDINATED MANNER, WILL PROCEED

WITH ALL AVAILABLE TECHNICAL AND ADMINISTRATIVE MEASURES TO REDUCE THE INFLATION TO REASONABLE LEVELS."

3. WAGES - THE UNIFORM 30,000 PESOS PER MONTH GENERAL WAGE INCREASE (REF A) WAS DESCRIBED AS AN EFFORT TO ASSIST LOWER INCOME WORKERS, BUT ONLY AS A ONE-TIME MEASURE IN ORDER TO AVOID DISTORTING THE GENERAL SALARY STRUCTURE. DR. SANCHEZ REAFFIRMED THAT THE POLICY OF GENERAL SALARY ADJUSTMENTS ON AN IRREGULAR SCHEDULE

WOULD BE MAINTAINED, ALTHOUGH WITH LESS FREQUENCY THAN IN THE RECENT PAST. THE COMPULSORY 30,000 PESO INCREASE WAS CLARIFIED IN THAT EMPLOYERS WILL BE PERMITTED GRANT LARGER INCREASES IF THEY DESIRE, PROVIDED THESE ADDITIONAL WAGE BOOSTS DO NOT RESULT IN ANY PRICE INCREASES AND PROVIDED THAT COPRIN IS NOTIFIED IN ADVANCE.

4. PRICES - PRICE INCREASES WILL ONLY BE PERMITTED TO REFLECT HIGHER COSTS RESULTING FROM BASIC WAGE INCREASE AND THE HIGHER TARIFFS FOR PUBLIC SECTOR ENTERPRISES, E.G., ELECTRICITY, PETROLEUM, ETC. THE SYSTEM OF PERMITTING AUTOMATIC COST-PASS-THROUGHS WILL THIS BE SUSPENDED, AND, IN PARTICULAR, HIGHER IMPORT COSTS RESULTING FROM DEVALUATION WILL BE EXPECTED TO BE ABSORBED BY IMPORTERS. IT WAS POINTED OUT THAT WORLD RAW MATERIAL COSTS ARE NOW FALLING AND CURRENT AND PENDING CHANGES IN URUGUAY'S IMPORT SYSTEM SHOULD COMPENSATE FOR THE DEVALUATIONS.

5. CONTROL MEASURES-THE SCOPE OF PRICE CONTROLS HAS BEEN AUGMENTED WITH A LONG LIST OF ADDITIONAL PRODUCTS.

(NOTE:THE NEWLY

CONTROLLED ITEMS ARE ALMOST EXACTLY THE SAME PRODUCTS THAT HAD BEEN DECONTROLLED LAST SEPTEMBER IN ONE OF MINISTER VEGH VILLEGAS' EARLIER ECONOMIC LIBERALIZATION MEASURES--SYECREF B). COL. DE CANDIA EMPHASIZED THAT THE PRICE CONTROL MECHANISM HAS BEEN CONSIDERABLY STRENGTHENED THROUGH MORE SEVERE SANCTIONS (FINES AND BUSINESS SUSPENSIONS) FOR INFRACTIONS, AND THAT PERMITTED PRICE LEEWAYS HAD BEEN DECREASED. RETAILERS MUST DISPLAY PRICE ANNOUNCEMENTS AND RECEIPTS MUST CARRY THE APPLICABLE COPRIN REGULATION ESTABLISHING MAXIMUMS. BOTH OFFICIALS PROMISED TO STRICTLY ADMINISTER PRICE CONTROLS, AND DESCRIBED STEPPED UP ENFORCEMENT PROGRAMS, INCLUDING THE USE OF MILITARY PERSONNEL FOR INSPECTIONS.

6. RECENT ACTIONS-CLEARLY AS A WAY OF UNDERLINING THE TOUGH NEW LIMITED OFFICIAL USE

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ENFORCEMENT POLICY, NEWSPAPERS HAVE BEEN GIVING WIDE COVERAGE TO A CRACKDOWN ON BREAD BAKERIES IN THE LAST WEEK. SUBSISTENCIAS, WHICH IS RESPONSIBLE FOR BASIC FOODSTUFFS, HAS FINED 133 BAKERS AND TEMPORARILY CLOSED 37 OF THEM FOR VIOLATION OF REGULATIONS, INCLUDING THE REFUSAL TO SELL THE CHEAPER VARIETIES OF BREAD. THE BAKERS' ATTITUDE EVIDENTLY REFLECTS THE SMALL MARGINS ALLOWED THEM, AS THE DIFFERENCE BETWEEN THE CONTROLLED WHOLESALE PRICE OF FLOUR AND THE FIXED PRICE OF BREAD IS ONLY 27 PESOS (ABOUT

ONE U.S. CENT) PER KILO.

7. COMMENT-MINISTER VEGH VILLEGAS RECENTLY SAID HE HOPED PRICE CONTROLS WOULD HAVE A PSYCHOLOGICAL IMPACT IN BREAKING INFLATIONARY EXPECTATIONS. CONSIDERING THAT URUGUAY HAS HAD SEVERAL YEARS OF OBVIOUSLY INEFFECTIVE PRICE CONTROLS AND THAT THE ANNOUNCED MEASURE STOPPED SHORT OF A PRICE FREEZE, IT SEEMS DOUBTFUL THAT THE HOPED FOR PSYCHOLOGICAL IMPACT WILL BE FORTHCOMING. IN TALKS WITH THE LOCAL BUSINESS COMMUNITY, WE HAVE NOT DISCERNED ANY CHANGE IN INFLATIONARY EXPECTATIONS. THIS, OF COURSE, COULD CHANGE AS THE CONTROL PROGRAM MOVES INTO HIGH GEAR AND THE PUBLIC IS IMPRESSED WITH THE VIGOR OF ENFORCEMENT.

8. GDS
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